

# **EDUMBE LOCAL MUNICIPALITY – KZN 261**

## **FINAL APPROVE NARATIVE BUDGET REPORT**

**2020/21- 2022/23**



## **MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS**

**Copies of this document can be viewed:**

- **All municipal buildings**
- **Dumbe Library and PaulPietersburg Library**
- **[www.edumbe.gov.za](http://www.edumbe.gov.za)**

## **TABLE OF CONTENTS**

### **Annual Budget Format (Schedule A)**

As per Municipal Budget and Reporting Regulations, the following information should be included in Schedule A:

#### **1. PART 1-FINAL BUDGET AS PER NATIONAL TREASURY**

- 1.1. Mayor's report
- 1.2. Resolutions
- 1.3. Executive summary
- 1.4. Final budget tables

#### **2. PART 2- SUPPORTING DOCUMENTATION**

- 2.1. Overview of annual budget process
- 2.2. Overview of alignment of annual budget with Integrated Development Plan
- 2.3. Measurable performance objectives and indicators
- 2.4. Overview of budget-related policies
- 2.5. Overview of budget assumptions
- 2.6. Overview budget funding
- 2.7. Expenditure on allocations and grants programmer
- 2.8. Allocation and grants made by the municipality
- 2.9. Councillor and board member allowances and employee benefits
- 2.10. Monthly targets for revenue, expenditure and cash flow
- 2.11. Annual budget and service delivery and budget implementation plans internal-departments
- 2.12. Annual budget and service delivery agreements-municipal entities and other external mechanisms
- 2.13. Contracts having future budget implications
- 2.14. Capital expenditure details
- 2.15. Legislations compliance status
- 2.16. Other supporting documents
- 2.17. Annual budgets of municipal entities attached to the municipalities annual budget
- 2.18. Municipal manager's quality certification

Details on the contents of each of the above sections are provided in the Schedules to the Municipal Budget and Reporting Regulations, as published in Part 1 of 2 Government Gazette No.32141 dated 17 April 2009

## **TABLING FINAL ANNUALLY BUDGET FOR 2020/TO 2021-2**

### **MTREF FINANCIAL YEAR**

#### **PART 1**

##### **1.1. MAYOR'S REPORT**

Deputy Mayor CLLR Ndlangamanda to deliver his speech during Council meeting on 11 June 2020 at Council Chamber.(See attached Mayor presentation or Speech).

#### **PURPOSE**

The purpose of the item is to submit the Final MTEF budget for 2020/21 to 2022-23 financial year in terms of section 16 (1) of the Local Government: Municipal Finance Management Act no. 56 of 2003.

#### **BACKGROUND**

In terms of section 16 (1) of the Municipal Finance Management Act, the municipal council of a municipality must for each financial year approve an final budget for the municipality before the start of that financial year. Section 16 (2) stipulates that in order for a municipality to comply with subsection (1), the mayor of the municipality must table the final budget at a council meeting at least 31 March 2020 the start of the budget year.

#### **DISCUSSION**

##### **Executive Summary**

The application of sound financial management principles for the compilation of eDumbe Local Municipality financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury's MFMA Circular No. 85 and 86 were used to guide the compilation of the 2020/21 – 2022/23 MTREF. The mSCOA Regulations was also taken into account when the final budget was compiled and the budget complies with the mSCOA requirements.

The main challenges experienced during the compilation of the 2021/22 MTREF has not changed from the previous year's challenges which were experienced by the municipality when the budget was previously compiled. The challenges can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Most of the rural settlements are small thus making service delivery costly, this effect is compounded by the aspect that only 35% of the municipality's population lives in an urban area while 65% lives in the rural hinterland of the municipality. The spatial development pattern of the municipality will have to be addressed.
- Income levels in eDumbe tend to be quite low with 69% of the population earning less than R1200 a month. The traditional and rural areas are the most poverty stricken.
- The municipality has also experience the challenge due to the cutting of the expenditure by National and Provincial government. All grants were affected but cut costing measures implemented by the government.

### **Legislative framework**

The 2020/21 budget is prepared in accordance with the Local Government; Municipal Finance Management Act, 2003 and the Municipal Budget and reporting regulations issued by the Minister in terms of Section 168(1) of the Act. In terms of these regulations a multi-year budget spanning over three (3) years is prepared. It needs to be noted that the figures for 2020/22 and 2021/22 are indicative in terms of the medium term expenditure framework.

The budget comprise of two categories:

- (a) Operational Budget
- (b) Capital Budget

### **The focus area where eDumbe Municipality is rendering service to community includes the following:**

- Electricity supply
- Municipal roads and Solid waste removal
- Cemeteries
- Fire fighting and Public safety services

## **Linkages between the budget, the IDP and political priorities**

Firstly, the budget timetable and the IDP process plan are aligned through an integrated time schedule.

Secondly, the IDP is prepared and the projects are included in the budget with each project properly reference per IDP reference number.

Moreover, the financial plan comprising the total budget, among other items, is included in the IDP.

Finally, the implementation of electricity and solid waste projects and other assigned functions through the structures Act constitutes compliance with National, Provincial and Local development goals to eradicate backlogs of the past.

## **Operating Revenue Framework**

The expenditure required to address these challenges will inevitably always exceed available funding hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues. The municipality has a huge task to implement the revenue enhancement strategy due to the fact that the municipality has a huge backlog on infrastructure which must be addressed.

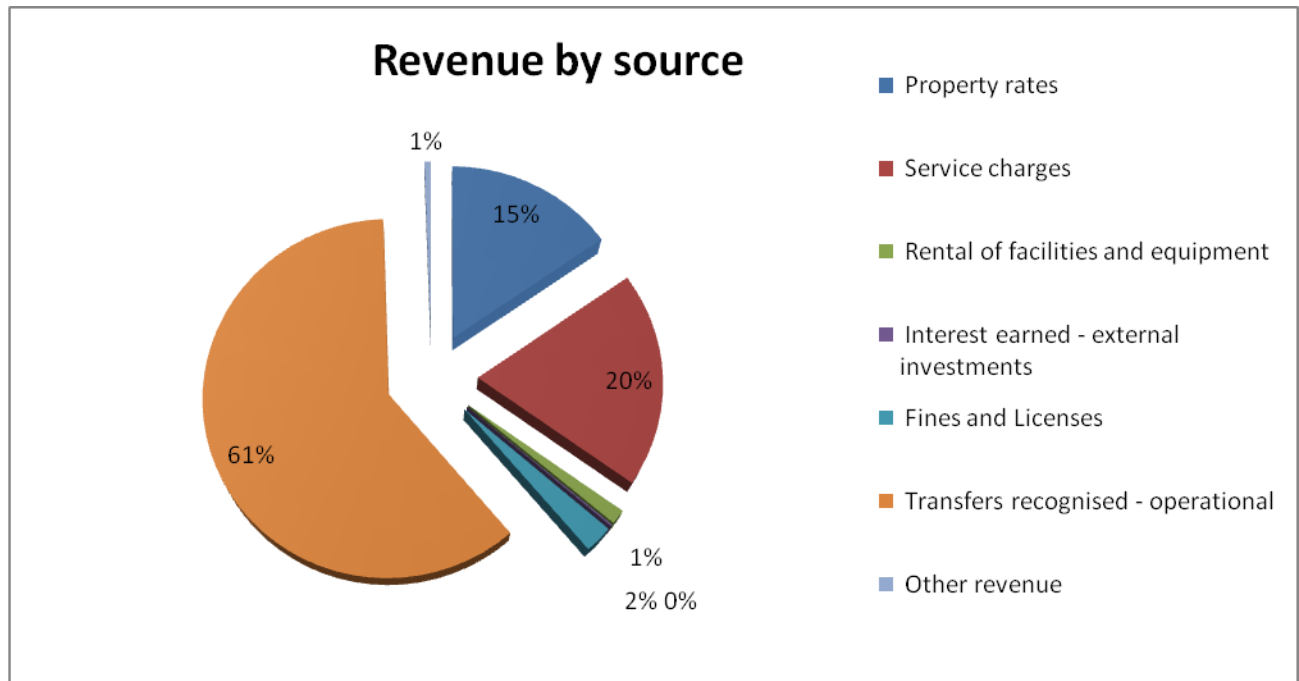
Cash flow has become a huge challenge in a municipality due to the non-payment by customers. One of the challenges which cause the customers not to pay is the current economy status within the area which has affected the market and some businesses are struggling to cope with the situation.

The municipality's revenue strategy is built around the following key components:

- Efficient revenue management and electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and Tariff policies of the municipality.

The format prescribed by National Treasury has been used to prepare the above schedule and the operating statement has excluded the capital transfers to allow the user to see whether the operating activities of municipality results to the deficit or surplus.

**The revenue as per chart is as follows:**





Choose name from list - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2016/ 17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audit ed Outc ome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>R thousand</b>	1										
<b>Revenue By Source</b>											
Property rates	2	–	21 008	21 458	25 891	21 532	21 532	21 532	27 505	27 478	29 127
Service charges - electricity revenue	2	–	20 662	19 191	24 896	24 848	24 848	24 848	28 250	29 945	31 742
Service charges - refuse revenue	2	–	7 278	4 467	6 287	6 287	6 287	6 287	4 000	4 080	4 162
Rental of facilities and equipment		–	1 298	1 685	1 793	1 772	1 772	1 772	1 567	1 661	1 760
Interest earned - external investments		–	1 184	1 279	1 060	1 060	1 060	1 060	1 200	1 272	1 348
Interest earned - outstanding debtors		–	5 471	10 584	–	–	–	–	6 000	6 378	6 780
Fines, penalties and forfeits		–	2 078	504	3 044	3 000	3 000	3 000	3 000	3 180	3 371
Licences and permits		–	843	612	1 011	1 011	1 011	1 011	1 258	1 333	1 413
Transfers and subsidies		–	72 271	85 420	81 218	141 088	141 088	141 088	86 495	90 924	95 542
Other revenue	2	–	323	162	575	826	826	826	589	624	661
Gains on disposal of PPE		–	–	–	–	2 000	2 000	2 000	–	–	–
<b>Total Revenue (excluding capital transfers and contributions)</b>		–	<b>132 416</b>	<b>145 364</b>	<b>145 776</b>	<b>203 425</b>	<b>203 425</b>	<b>203 425</b>	<b>159 863</b>	<b>166 875</b>	<b>175 906</b>



---

**Refuse Revenue:** eDumbe Municipality was approved refuse relief for customer or Household with eDumbe Location and Bilanyon Town Ship that consumers that have their Market Values for their properties that less R 1100 000 will be exempted from refuse will be not be billed by eDumbe Municipality this will be treated as indigent consumers .As resulted to a decrease in a revenue from 6 million to 4 million on this final budget 2021.

**Fines, penalties and forfeits:** The fines,penalties and forfeits was not increase this year for Final budget 2020/21 that its base on a poor collection and Also one of our Employee who was suspended due issued of driver license to customer illegal this was picked by Department of Transport and withheld him the authority to issued license for eDumbe Municipality so we did not have person to test for now.

**Rental of facilities and equipment:** The rental of facilities we have lease agreement with Mondi LTD, IEC and Zululand District Municipality this was decrease because of our employees was sitting in a Municipality properties which will be disposed this financial year.

**Interest earned - external investments:** The investment was increase because of the actual from prior year Municipality encourage investment in order paid creditors

**Transfers and subsidies :** The amount that will be received from Dora this financial from Equitable Share (EQS)an amount R79 millions which was increase from last year allocation ,Finance Management Grant (FMG)an amount R2,8 millions also increase this year ,Art and Culture and Community Grant with an amount R 3 million also increase this financial year 2020-21 final budget.

**Other revenue:** The amount that includes the followings as follows the tender monies, clearance certificates, Grazing, Burial fees and disconnection fees .

## Sale of Electricity and Impact of Tariff Increases

NERSA has approved an average increase to Eskom on bulk electricity but used last year nersa by 9.41% per cent. The municipality will be applying to NERSA for the electricity tariff increase for 13.01% as per the NERSA guidelines which given to all license municipalities dated 28 March 2020.

When the increase on Electricity sales were done the new development in town which include new shops (eDumbe Location) were considered as well as the electrification project for Emncelwini Ward 3. The 2019/20 Mid-year budget review figures were taken into account when the projection of total amount of electricity sales was done with the addition of the new connections.

## Operating Transfers and Grant Receipts

The National Treasury has allocated grants to the municipality through DORA which will assist on the provision of the basic services. The schedule of grants received is as follows:

Details	Final Budget 2020/21	Budget 2021/22	Budget 2022/23
<b>GRANTS &amp; SUBSIDIES</b>			
<b>National Government</b>			
Equitable Share	79 348 000	84 593 000	88 952 000
Finance Management Grant	2 800 000	3 100 000	3 200 000
Public Works Integrated Grant	1 522 000	-	-
	<b>83,670,000</b>	<b>87,693,000</b>	<b>92,152,000</b>
<b>Provincial Government</b>			
Provincialisation of Libraries	1 809 000	1 871 000	1 964 000
Community Library Services	1 271 000	1 360 000	1 426 000
	<b>3 080 000</b>	<b>3 231 000</b>	<b>3 390 000</b>
<b>Total Operational grants</b>	<b>86,750,000</b>	<b>90,924,000</b>	<b>95,542,000</b>

## Capital Grants

Details	Final Budget 2020/21	Budget 2021/22	Budget 2022/23
<b>GRANTS &amp; SUBSIDIES</b>			
<b>National Government</b>			
Municipal Infrastructure Grant	17 952 000	17 144 650	17 892 300
Integrated National Electrification	16 000 000	16 000 000	20 000 000
<b>Total Capital Grants</b>	<b>33,952,000</b>	<b>33,144,650</b>	<b>37,892,300</b>

## Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R95 000 reduction on the market value of a property will be granted in terms of eDumbe Local Municipality's proposed final Property Rates Policy to be implemented in 2020/21 to address the value of the properties for indigent household taking into account the RDP House value.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance.

The proposed property rates tariff for 2021/22 financial year has been calculated in compliance with the MPRA regulations which stipulate the ratios of tariffs per category. It must be noted that the previous year's tariffs was not complying with the MPRA regulations when it comes to ratios per category. The revenue forgone has been calculated to R2 179 618 based on the R65 000 reduction amount on all residential properties.

The proposed tariffs for the property rates which will be implemented by eDumbe Local Municipality is as follow:

Property Category	Budget 2019/2020	Rebate	Budget 2020/21	Rebate
Residential	0.008949		0.001873	
Business, Commercial	0.02237	10%	0.02411	10%
Industrial business	0.01342		0.02441	
Agricultural	0.002237		0.001873	
State Owned Properties	0.02237		0.02727	
Public Service Purposes	0.002237		0.02727	
Public Service Infrastructure	0.002237		0.004885	
Illegal use	0.02684		0.02684	
Vacant Land	0.02684		0.029524	
Place of Public Worship	Exempted 100%			
Municipal properties				
Communal Land				
Public Benefit Organisation Properties, and Non-Profit Organisation Properties				

Due to challenges on the data and the submission of statement of account the municipality will be charging interest on overdue accounts in 2020/21 financial year for rates and refuse account but interest will be charged on all Electricity accounts as per proposed tariffs charges and the situation will be reviewed during the financial year and the municipality has targeted 2020/21 financial year for starting to charged the interest on all overdue accounts at 0.062% on 30 days account in arrears .

### Waste Removal and Impact of Tariff Increases

The will not increase in the waste removal tariff is proposed from 1 July 2021. The following table compares current and proposed amounts payable from 1 July 2019:

Waste removal proposed tariffs	2019/20 excl. VAT	2020/21 excl. VAT
1. Domestic removal - Refuse	R 113.87	R 113.87
2. Business removal - Refuse		
1 - 2 Bins	R307.14	R307.14
3 - 4 Bins	R 461.07	R 461.07
5 - 6 Bins	R 496.39	R 496.39
More than 6 Bins	R 711.48	R 711.48



## EXPENDITURE SECTION

Choose name from list - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>Expenditure By Type</b>	-										
Employee related costs	2	-	48 371	54 641	54 150	58 017	58 017	58 017	66 365	71 178	76 412
Remuneration of councillors		-	5 973	5 828	5 629	5 629	5 629	5 629	5 855	6 204	6 696
Debt impairment	3	-	14 142	-	11 000	11 000	11 000	11 000	11 000	11 660	12 360
Depreciation & asset impairment	2	-	6 768	(1)	12 000	10 000	10 000	10 000	10 000	10 600	11 236
Finance charges		-	1 512	121	159	159	159	159	169	179	190
Bulk purchases	2	-	22 411	21 177	22 348	24 600	24 600	24 600	26 814	28 423	30 128
Other materials	8	-	2 099	3 292	1 966	4 689	4 689	4 689	8 013	8 062	9 354
Contracted services		-	17 372	10 854	17 528	22 783	22 783	22 783	12 648	13 322	14 074
Transfers and subsidies		-	-	848	1 171	-	-	-	-	-	-
Other expenditure	4, 5	-	7 092	10 291	9 560	15 331	15 331	15 331	12 213	10 494	11 114
Loss on disposal of PPE		-	-	-	-	17	17	17	-	-	-
<b>Total Expenditure</b>		-	<b>125 740</b>	<b>107 051</b>	<b>135 511</b>	<b>152 225</b>	<b>152 225</b>	<b>152 225</b>	<b>153 077</b>	<b>160 121</b>	<b>171 564</b>

## Operating Expenditure Framework

The eDumbe Local Municipality expenditure framework for the 2020/21 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital program is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

## Employee cost

The employee related cost comprises of 45% of the operating budget and 35% of the total budget inclusive of Capital budget excluding the councillor's remunerations. The employee costs percentage is above the threshold/ acceptable norm as per National Treasury Circular 71 which indicates that the acceptable norm for the Employee related cost must be 25% to 40%.

$$\begin{aligned} & \text{Remuneration (Employee Related Costs and Councillors' Remuneration) / Total} \\ & \text{Operating Expenditure x 100} \\ & = (R66365000 + R 5805436) * 100 / 151372530 \\ & \quad \underline{= 45\%} \end{aligned}$$

The increase on salaries for employees has been projected at 6.25% as per Circular no. 85 and 86 issued by National Treasury as well as bargaining Council circular for increment of salaries.

The employee cost has a provision of new posts to be filled during the next financial year. The posts in question are as follows: Chief financial Officer, Revenue Manager, Senior Town Planner, IDP Manager, Housing Manager, Cashier, Budget Accountant, Procurement Officer and Senior Electrician

Also included on the employee related costs is the provision for travel allowances for all managers at R 6 500 per month. The managers will therefore not be eligible to use municipal vehicles as they will be having the travel allowances.

### **Remuneration for Councillors**

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipal budget. It must also be noted that the position of the Mayor and Speaker are full time which had an impact on the allowances of the councillors.

### **Bulk Purchase**

Bulk purchases are directly informed by the purchase of electricity from Eskom. The guideline for the tariffs charge increases has not been approved by NERSA for municipalities at 9.41% taking into account the approval made by NERSA for Eskom increases on electricity. Tariffs will be increase by 13.01 % .

### **Contracted services**

Contracted services have been identified as a cost saving area for the municipality. As part of the compilation of the 2020/21 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. The contracted services include the provision of the grass cutting to the municipal properties and the security services to all municipal buildings as per the service level agreement that was expired but the Municipality is in a process to do this services in House as part Cut costing measure as outlined in a secular 82 which the Municipality will make a saving out this contracted Services.



## Repairs and maintenance of assets

This has become a challenge when it comes to the disclosure of the amount to be spent on the repairs and maintenance of the assets. This is because the repairs and maintenance portion include the portion of salaries of employees which are involved on the repairs and maintenance. The repairs and maintenance budgeted for 2020/21 financial year per item is as follows excluding the salaries portion.

### Repairs and Maintenance

Description R thousand	2020/21 Medium Term Revenue & Expenditure Framework		
	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>Electricity Infrastructure</b>	R 2 683 750	R 2 844 775	R 3 015 462
<b>Operations &amp; Maintenance</b>	R 2 341 500	R 2 481 990	R 2 630 909
<b>Building Maintenance</b>	R 2 026 500	R 2 148 090	R 2 276 975
<b>Total</b>	<b>R 7 051 750</b>	<b>R 7 474 855</b>	<b>R 7 923 346</b>

## Covid-19 Expenditure

This was budget for on a final budget as is recommended by Provincial treasury as now that we are approaching winter season we anticipated number of death during this and also we budget sanitizers and PPe for our employees. The budget was allocation 800 000

## Free Basic Services: Basic Social Services Package

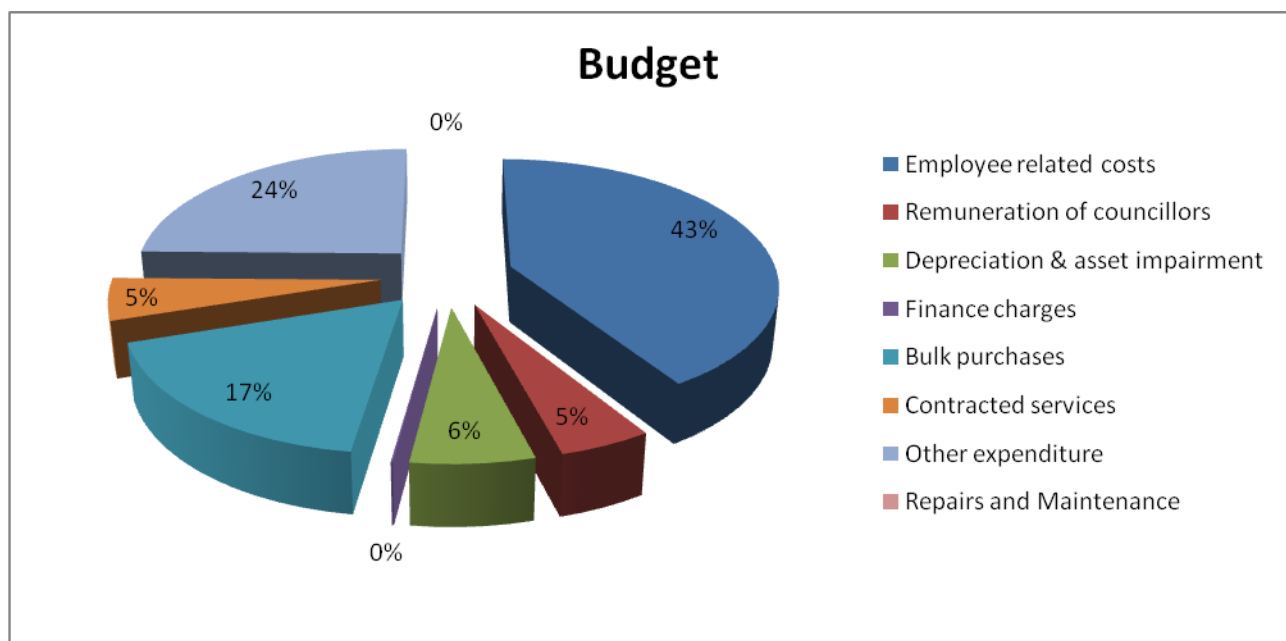
The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the eDumbe Local Municipality's Indigent Policy. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement). The municipality is currently provide the free basic electricity to rural household and the municipality pay Eskom for the provision of the free basic electricity since the license holder is Eskom.

The budgeted amount for FBE has been included on the bulk purchases for electricity. And we have indigent policy for eDumbe Municipality.

### Depreciation

This is a non cash item budgeted for as per the stipulation of the new accounting standards and is funded from backlog depreciation. The depreciation and impairment of assets has been budgeted at R 21 000 000 for 2020/21 financial year we did not increase this financial.

The following table/ chart give a breakdown of the main expenditure categories for the 2020/21 financial year.



Choose name from list - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2016/17	2017/18	2018/19	Current Year 2019/20				2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>R thousand</b>	1										
<b>Expenditure By Type</b>	-										
Employee related costs	2	-	48 371	54 641	54 150	58 017	58 017	58 017	66 365	71 178	76 412
Remuneration of councillors		-	5 973	5 828	5 629	5 629	5 629	5 629	5 855	6 204	6 696
Debt impairment	3	-	14 142	-	11 000	11 000	11 000	11 000	11 000	11 660	12 360
Depreciation & asset impairment	2	-	6 768	(1)	12 000	10 000	10 000	10 000	10 000	10 600	11 236
Finance charges		-	1 512	121	159	159	159	159	169	179	190
Bulk purchases	2	-	22 411	21 177	22 348	24 600	24 600	24 600	26 814	28 423	30 128
Other materials	8	-	2 099	3 292	1 966	4 689	4 689	4 689	8 013	8 062	9 354
Contracted services		-	17 372	10 854	17 528	22 783	22 783	22 783	12 648	13 322	14 074
Transfers and subsidies		-	-	848	1 171	-	-	-	-	-	-
Other expenditure	4, 5	-	7 092	10 291	9 560	15 331	15 331	15 331	12 213	10 494	11 114
Loss on disposal of PPE		-	-	-	-	17	17	17	-	-	-
<b>Total Expenditure</b>		-	<b>125 740</b>	<b>107 051</b>	<b>135 511</b>	<b>152 225</b>	<b>152 225</b>	<b>152 225</b>	<b>153 077</b>	<b>160 121</b>	<b>171 564</b>

## Capital expenditure

The following table provides a breakdown of budgeted capital expenditure funded by grants:

R Thousand	Program/ Project Description	Asset Sub-class	Total Project Estimate	Project Information
Own Funding	Vehicles	Vehicles	R 2 100 000	New
<b>Total Own funding</b>			<b>2 100 000</b>	
MIG Project	Mdwadlaza Pedestrian	Bridge	R 3 500 000	Ward 1
MIG Project	Ezibomvu Community	Hall	R 3 150 000	Ward 2
MIG Project	eDumbe Community Phase 2	Hall	R 1 800 000	Ward 3
MIG Project	Hartland Community	Hall	R 3 150 000	Ward 5
MIG Project	Pivaan Pedestrian	Bridge	R 3 142 000	Ward 7
MIG Project	Emapayiphini Community	Hall	R 3 150 000	Ward 8
<b>Total MIG EXPENDITURE</b>			<b>R 19 892 000</b>	
Electrification Services	Obivane Electrification	Electrification	R 656 166	Ward 1
Electrification Services	Nhlungwane Electrification	Electrification	R 992 080	Ward 8
Electrification Services	Infrastructure Upgrade	Electrification	R 5 500 000	Ward 3
Electrification Services	Zungwini Phase Electrification	Electrification	R 4 000 000	Ward 7
Electrification Services	KwaSonkela Electrification	Electrification	R 4 851 753	Ward 6
<b>Total Expenditure</b>			<b>R 16 000 000</b>	
<b>TOTAL CAPITAL EXPENDITURE</b>			<b>R 36 892 000</b>	

The capital budget is funded by the grants which will be transferred to the municipality by National Treasury as per DORA allocation gazette for 2021. Furthermore it shows that eDumbe Municipality will be facing the backlog in terms of Service Delivery because the Municipal Infrastructure (MIG )decrease from last year to current period with an amount of R 1.3 million less to this financial year .Also Energy an amount by eDumbe Municipality last year was increase by one million this financial year.

The municipality has also budgeted for capital expenditure out of the cash generated by the municipality. The projects which are budgeted for under cash generated funding are as follow purchasing of two bakies and Council recording system for a Services Delivery.

## **Recommended Council Resolutions**

1. The Mayor of eDumbe Local Municipality, acting in terms of section 16 (2) of the Municipal Finance Management Act, (Act 56 of 2003) hereby table the final Budget and Budget related policies to a council meeting. The council resolved;
  - 1.1. That the final budget and Medium-Term Revenue and Expenditure Framework (MTEF) for the three year period commencing in 2020/21 financial year be approved.
  - 1.2. To approved final budget of the operational and Capital budget for the outer years 20120/21 and 2022/2023
  - 1.3. To Approved final budget that provision was made for a general increase of 6.25% on Employee Related Costs and 6.25% provision for the Upper limits for Remuneration and allowances for Councillors, implementation being subject to the confirmation by the SALGBC for employees and approval by MEC for Co-operative Governance and Traditional Affairs for councillors.
  - 1.4. To Approved that the mSCOA Regulations and Integrated Development Plan was observed and taken into account in the compilation of the budget.
  - 1.5. Those copies of the budget are submitted to National Treasury, DPLG, DTLGA and Provincial Treasury as per the requirements of the MFMA.
  - 1.6. To approved of the developed Electricity Theft By-law which will be communicated through public participation and to take note of the Budget related policies.

1.7. To approved of the budget funding (grants) and the proposed tariff charges

1.8. To approved of the reviewed tariffs as per the MFMA Budget Circular and NERSA guidelines for electricity tariffs.

1.8.1. That the tabled budget for the year 2020/2021 & indicative figures for the 2 projected outer years be adopted by Council as set out in the following schedules:

- |           |                                      |   |
|-----------|--------------------------------------|---|
| 1.8.1.1.  | Table A1                             | Budget Summary  |
| 1.8.1.2.  | Table A2                             | Budgeted Financial Performance (By Standard Classification) |
| 1.8.1.3.  | Table A3                             | Budgeted Financial Performance (By Municipal Vote)          |
| 1.8.1.4.  | Table A4                             | Budgeted Financial Performance (Revenue & Expenditure)      |
| 1.8.1.5.  | Table A5                             | Budgeted Capital Expenditure                                |
| 1.8.1.6.  | Table A6                             | Budgeted Financial Position                                 |
| 1.8.1.7.  | Table A7                             | Budgeted Cash Flows   |
| 1.8.1.8.  | Table A8                             | Cash Backed Reserves  |
| 1.8.1.9.  | Table A9                             | Asset Management  |
| 1.8.1.10. | Table A10                            | Basic Service Delivery Measurement                          |
| 1.8.1.11. | Supporting documents from SA1 – SA37 |   |

### **1.4.1 Executive Summary**

The application of sound financial management principles for the compilation of eDumbe Local Municipality financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury's MFMA Circular No. 85 and 86 were used to guide the compilation of the 2020/21 – 2022/23 MTREF. The mSCOA Regulations was also taken into account when the final budget was compiled and the budget complies with the mSCOA requirements.

The main challenges experienced during the compilation of the 2019/20 MTREF has not changed from the previous year's challenges which were experienced by the municipality when the budget was previously compiled. The challenges can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Most of the rural settlements are small thus making service delivery costly, this effect is compounded by the aspect that only 35% of the municipality's population lives in an urban area while 65% lives in the rural hinterland of the municipality. The spatial development pattern of the municipality will have to be addressed.
- Income levels in eDumbe tend to be quite low with 69% of the population earning less than R1200 a month. The traditional and rural areas are the most poverty stricken.
- The municipality has also experience the challenge due to the cutting of the expenditure by National and Provincial government. All grants were affected but cut costing measures implemented by the government.

### 1.4.2 Overview of budget assumptions

Whilst EDumbe has over years has been experiencing financial challenged it need to start maintaining a strong financial position through having sufficient reserves. Our reserves depleted long time as were financing long term contracts, capital and operational projects internally. The municipality is experiencing a service delivery backlogs and financial intervention is from National Treasury. Due to the rural nature of the municipality, we rely heavily on government grants as we have a low.

<b>Consolidated Overview of the Final Budget 2020/21</b>			
<b>Description</b>	<b>Final Budget 2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Revenue	159,863,000	166,875,000	175,906,000
<b>Total Revenue</b>	<b>159,863,000</b>	<b>166,875,000</b>	<b>175,906,000</b>
Total Operation Expenditure	153,077,000	160,121,000	171,564,000
<b>Total Expenditure</b>	<b>153,077,000</b>	<b>160,121,000</b>	<b>171,564,000</b>
<b>Surplus (Deficit)</b>	<b>6,786,000</b>	<b>6,754,000</b>	<b>4,342,000</b>

### 1.4.1 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2020/21 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on eDumbe Municipality residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and
- The increase in the cost of remuneration. Employee related costs comprise 44 per cent of total operating expenditure in the 2020/21 MTREF.



#### **1.4.2 Interest rates for borrowing and investment of funds**

The MFMA specifies that borrowing can only be utilized to fund capital or refinancing of borrowing in certain conditions. The eDumbe Municipality engages in a number of financing arrangements to appointed Services providers to outsourced monies for the eDumbe Municipal in order to face a backlog in terms of Service Delivery issues and minimize its interest rate costs and risk. There is no borrowing during 2020/21 financial year.

## Investment of Funds investment Register

<b>eDUMBE LOCAL MUNICIPALITY</b> <b>INVESTMENT REGISTER</b> <b>SUMMARY INVESTMENT REGISTER ( Regulation 3(1)(g) )</b> <b>2019/2020</b>						
<b>INSTITUTION</b>	<b>OPENING BALANCE 2019-07-01</b>	<b>INVESTED in current year</b>	<b>Withdrawal</b>	<b>INTEREST</b>	<b>BALANCE 2019-12-31</b>	<b>INTEREST Earned</b>
FNB - 62033660376	104 980.89	50 000 000.00	20 611 425.70	382 097.14	29 875 652.33	382 097.14
GRINDROD - 154009	16 761.08	-	-	537.77	17 298.85	537.77
FNB - 624218433807	441 650.44	9 000 000.00	9 500 000.00	116 371.61	58 022.05	116 371.61
FNB - 61328003233	1 207 035.24	2 730 000.00	600 000.00	24 967.03	3 362 002.27	24 967.03
FNB - 62219848746	124 847.40	-	-	2 782.56	127 629.96	2 782.56
<b>TOTAL</b>	<b>1 895 275.05</b>	<b>61 730 000.00</b>	<b>30 711 425.70</b>	<b>526 756.11</b>	<b>33 440 605.46</b>	<b>526 756.11</b>
<b><u>Summary</u></b>						
<b>Total interest received from this investments (for the period 1 July 2019 to 30 June 2020)</b>					<b>526 756.11</b>	
<b>Total amount on current investments &amp; call account (as at December 2019)</b>					<b>33 440 605.46</b>	

### **1.4.3 Collection rate for revenue services**

It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term, having considered this it is prudent to assume that tariff increases will be modest going forward.

The rate of revenue collection is currently not expressed as a percentage of annual billings. Cash flow is assumed to be a challenge for eDumbe Municipality billings, plus an increased collection of arrear debt from the revised credit control and debt collection policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

### **1.4.4 Salary increases**

Employees' salaries overall increase by 6.25% based on the projected CPI plus 1,5% with effect from 1 July 2020 as per the salary and wage collective agreement for the period 01 July 2018 to 30 June 2021. The projected CPI to be used is the forecast of the Reserve Bank, in terms of the January 2019 Monetary Policy Committee Statement. The salaries increase was because of Security Services and Grass Cutting contractors who were in sourcing in a last year but this will be in done in house. The salaries increase has been taken into consideration of Vacant post that is budget for an approved organ gram that was approved by Councill of eDumbe on current financial year.

**Remuneration for councillors** is increasing by 4% this is based on actual costs approved in accordance with the recent Government Gazette of Public Office Bearers Act.

### **1.4.5 Impact of national, provincial and local policies**

Integration of service delivery objectives between national, provincial and local government is critical to ensure focused service delivery and in this regard various measures were implemented to align IDP, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiative.

### **1.4.6 Budget related policies**

- ❖ Various policies approved by Council underpin governance and the financial functioning of the municipality and are relevant to the budget process. The purpose of this section of the Budget Report is to indicate the key policies in this regard and to seek review by Council of any amendments and new policies that are align to current situation. The following policies are approved: Property Rates policy , .Indigent Policy ,Virement Policy, Cash ,Banking and Investment Policy, Petty Cash Policy, Credit Control policy ,Supply Chain Management Policy ,Debt impairment Policy, Tariffs Policy, Budget Policy Cash Banking and Investment Management Policy,

Customer Care, Credit, Debt Collection Policy and Bylaw., Budget Policy, Debt Impairment Policy, Debt Incentive Policy, Risk Policy, Risk Management Policy, Anti Fraud and Corruption Policy, Whistle Blowing Policy, Consultants Policy, Service Delivery Policy. Financial Misconduct Policy and Electricity Bylaw

### **3 Legislative framework**

The 2020/21 budget is prepared in accordance with the Local Government; Municipal Finance Management Act, 2003 and the Municipal Budget and reporting regulations issued by the Minister in terms of Section 168(1) of the Act. In terms of these regulations a multi-year budget spanning over three (3) years is prepared. It needs to be noted that the figures for 2020/21 and 2022/2023 are indicative in terms of the medium term expenditure framework.

The budget comprise of two categories:

- (c) Operational Budget
- (d) Capital Budget

The focus area where eDumbe Municipality is rendering service to community includes the following:

- Electricity supply
- Municipal roads and Solid waste removal
- Cemeteries
- Fire fighting and Public safety services

### **Linkages between the budget, the IDP and political priorities**

Firstly, the budget timetable and the IDP process plan are aligned through an integrated time schedule.

Secondly, the IDP is prepared and the projects are included in the budget with each project properly reference per IDP reference number.

Moreover, the financial plan comprising the total budget, among other items, is included in the IDP.

Finally, the implementation of electricity and solid waste projects and other assigned functions through the structures Act constitutes compliance with National, Provincial and Local development goals to eradicate backlogs of the past.

## **Operating Revenue Framework**

The expenditure required to address these challenges will inevitably always exceed available funding hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues. The municipality has a huge task to implement the revenue enhancement strategy due to the fact that the municipality has a huge backlog on infrastructure which must be addressed.

Cash flow has become a huge challenge in a municipality due to the non-payment by customers. One of the challenges which cause the customers not to pay is the current economy status within the area which has affected the market and some businesses are struggling to cope with the situation.

The municipality's revenue strategy is built around the following key components:

- Efficient revenue management and electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and Tariff policies of the municipality.

The format prescribed by National Treasury has been used to prepare the above schedule and the operating statement has excluded the capital transfers to allow the user to see whether the operating activities of municipality results to the deficit or surplus

## **Sale of Electricity and Impact of Tariff Increases**

NERSA has approved an average increase to Eskom on bulk electricity by 9.41% per cent. The municipality will be applying to NERSA for the electricity tariff increase for 15 % as per the NERSA guidelines which given to all license municipalities dated 28 March 2019 since we not yet get approval from NERSA eDumbe will be last year tariffs for Eskom for Final budget.

When the increases on Electricity sales were done the new development in town which include new shops (eDumbe Shopping Centre) were considered as well as the electrification project for Emncelwini Ward 3 Appointment of New A Service provider for installation of meter in a eDumbe Location and Paulpietersburg Town. The 2019/20 Mid-year budget review figures were taken into account when the projection of total amount of electricity sales was done with the addition of the new connections.

### **Property Rates**

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R110 000 reduction on the market value of a property will be granted in terms of eDumbe Local Municipality's proposed final Property Rates Policy to be implemented in 2020/21 to address the value of the properties for indigent household taking into account the RDP House value.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance.

The proposed property rates tariff for 2020/21 financial year has been calculated in compliance with the MPRA regulations which stipulate the ratios of tariffs per category. It must be noted that the previous year's tariffs was not complying with the MPRA regulations when it comes to ratios per category. The revenue forgone has been calculated to R 2 179 618 based on the R65 000 reduction amount on all residential properties.

The proposed tariffs for the property rates which will be implemented by eDumbe Local Municipality is as follow:

Property Category	Budget 2019/2020	Rebate	Budget 2020/21	Rebate
Residential	0.008949		0.001873	
Business, Commercial	0.02237	10%	0.02411	10%
Industrial business	0.01342		0.02441	
Agricultural	0.002237		0.001873	
State Owned Properties	0.02237		0.02237	
Public Service Purposes	0.002237		0.02237	
Public Service Infrastructure	0.002237		0.004885	
Illegal use	0.02684		0.00000	
Vacant Land	0.02684		0.029524	
Place of Public Worship	Exempted 100%			
Municipal properties				
Communal Land				
Public Benefit Organisation Properties, and Non-Profit Organisation Properties				

eDumbe Municipality next financial year will be implementing new valuation roll as a resulted decrease in tarrifts but the Market Values for Residential ,Business,Commercial ,Industrial business,Agriculture State Owned properties their market values increase from new Valuation Roll.

Due to challenges on the data and the submission of statement of account the municipality will be charging interest on overdue accounts in 2020/21financial year for rates and refuse account but interest will be charged on all Electricity accounts as per proposed tariffs charges and the situation will be reviewed during the financial year and the municipality has targeted 2020/21 financial year for starting to charged the interest on all overdue accounts at 0.0062% on 30 days account in arrears .

## Waste Removal and Impact of Tariff Increases

A not increase in the waste removal tariff is proposed from 1 July 2020. The following table compares current and proposed amounts payable from 1 July 2019:

Waste removal proposed tariffs	2019/2020 excl. VAT	2020/21 excl. VAT
1. Domestic removal - Refuse	R 113.87	R 113.87
2. Business removal - Refuse		
1 - 2 Bins	R307.14	R307.14
3 - 4 Bins	R 461.07	R 461.07
5 - 6 Bins	R 496.39	R 496.39
More than 6 Bins	R 711.48	R 711.48

## **EXPENDITURE SECTION**

### **Operating Expenditure Framework**

The eDumbe Local Municipality expenditure framework for the 2020/21 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital program is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.



Choose name from list - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)

Functional Classification Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Revenue - Functional</b>										
<i><b>Governance and administration</b></i>		–	78 918	44 242	73 867	111 721	111 721	72 105	75 128	79 192
Executive and council		–	11 826	7 642	11 533	11 533	11 533	12 239	13 046	13 722
Finance and administration		–	67 092	36 600	62 335	100 189	100 189	59 866	62 082	65 470
<i><b>Community and public safety</b></i>		–	12 488	17 307	13 071	32 571	32 571	14 958	15 922	16 774
Community and social services		–	12 457	17 273	12 981	12 981	12 981	14 867	15 826	16 672
Sport and recreation		–	32	34	90	19 590	19 590	91	96	102
<i><b>Economic and environmental services</b></i>		–	65 559	46 941	59 283	99 746	99 746	78 874	80 278	84 563
Planning and development		–	65 006	46 580	58 421	98 791	98 791	78 050	79 405	83 638
Road transport		–	552	361	861	954	954	824	873	925
<i><b>Trading services</b></i>		–	25 510	18 227	29 602	29 553	29 553	20 071	20 155	24 241
Energy sources		–	25 510	18 227	29 602	29 553	29 553	16 071	16 075	20 079
Waste management		–	–	–	–	–	–	4 000	4 080	4 162
<i><b>Other</b></i>	4	–	2 058	115	3 000	3 000	3 000	3 000	3 180	3 371
<b>Total Revenue - Functional</b>	2	–	184 533	126 832	178 823	276 591	276 591	189 008	194 664	208 141
<b>Expenditure - Functional</b>	-									
<i><b>Governance and administration</b></i>		–	69 456	34 534	81 823	89 418	89 418	83 739	88 949	95 899
Executive and council		–	13 681	10 169	14 393	19 092	19 092	16 120	17 143	18 356
Finance and administration		–	55 775	24 365	67 429	70 326	70 326	67 620	71 806	77 543
Internal audit		–	–	–	–	–	–	–	–	–
<i><b>Community and public safety</b></i>		–	16 303	12 543	9 866	10 673	10 673	14 521	15 380	16 386
Community and social services		–	16 051	12 511	9 633	10 442	10 442	14 253	15 097	16 086
Public safety		–	252	32	233	231	231	268	283	300
<i><b>Economic and environmental services</b></i>		–	16 333	12 154	20 414	24 440	24 440	19 168	19 073	20 405
Planning and development		–	16 618	12 154	20 414	24 440	24 440	19 168	19 073	20 405
Road transport		–	(285)	–	–	–	–	–	–	–
<i><b>Trading services</b></i>		–	24 437	19 057	23 408	27 660	27 660	33 866	35 898	38 052
Energy sources		–	24 437	19 057	23 408	27 660	27 660	33 866	35 898	38 052
<b>Total Expenditure - Functional</b>	3	–	126 529	78 289	135 511	152 191	152 191	151 294	159 300	170 741
<b>Surplus/(Deficit) for the year</b>		–	58 003	48 544	43 312	124 400	124 400	37 714	35 364	37 399

Choose name from list - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description  R thousand	Ref	2016/17	2017/18	2018/19	Current Year 2019/20			2020/21 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
<b>Revenue by Vote</b>	1									
Vote 1 - Finance & Admin		–	54 555	45 250	48 260	83 976	83 976	52 349	54 059	57 092
Vote 2 - Executive & Council		–	11 826	10 438	11 533	11 533	11 533	12 239	–	13 722
Vote 3 - Community and Social Services		–	12 429	15 889	12 948	12 948	12 948	14 982	15 920	16 733
Vote 7 - Waste Management		–	–	–	–	–	–	4 000	4 080	4 162
Vote 8 - Energy Sources		–	25 510	26 212	29 602	29 553	29 553	71	75	79
Vote 9 - Planning and Development		–	63 530	57 195	57 154	97 524	97 524	92 528	101 427	105 800
Vote 10 - Sports & Recreation		–	–	–	–	19 500	19 500	–	–	–
Vote 12 - Health		–	28	6 238	34	34	34	34	36	38
Vote 14 - Public Safety		–	1 103	977	1 267	1 267	1 267	1 267	–	–
Vote 15 - Finance & Admin 2		–	12 538	12 261	14 075	16 213	16 213	12 430	13 249	13 936
<b>Total Revenue by Vote</b>	2	–	<b>181 517</b>	<b>174 460</b>	<b>174 872</b>	<b>272 547</b>	<b>272 547</b>	<b>189 901</b>	<b>188 846</b>	<b>211 563</b>
<b>Expenditure by Vote to be appropriated</b>	1									
Vote 1 - Finance & Admin		–	31 109	11 405	31 859	32 583	32 583	37 553	39 894	42 382
Vote 2 - Executive & Council		–	13 681	13 618	14 393	19 092	19 092	15 970	16 985	18 189
Vote 3 - Community and Social Services		–	14 278	17 368	8 773	8 962	8 962	13 682	13 703	14 607
Vote 8 - Energy Sources		–	24 437	23 041	23 408	27 660	27 660	34 116	36 163	38 332
Vote 9 - Planning and Development		–	16 618	17 275	19 711	23 820	23 820	19 168	19 073	20 405
Vote 11 - Road Transport		–	46	–	42	42	42	45	48	51
Vote 12 - Health		–	–	27	80	200	200	–	–	–
Vote 15 - Finance & Admin 2		–	24 666	21 682	35 670	37 843	37 843	30 501	32 120	35 363
<b>Total Expenditure by Vote</b>	2	–	<b>124 835</b>	<b>104 417</b>	<b>133 937</b>	<b>150 202</b>	<b>150 202</b>	<b>151 034</b>	<b>157 985</b>	<b>169 329</b>
<b>Surplus/(Deficit) for the year</b>	2	–	<b>56 682</b>	<b>70 042</b>	<b>40 935</b>	<b>122 345</b>	<b>122 345</b>	<b>38 866</b>	<b>30 862</b>	<b>42 234</b>

